



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

September 11, 2006

TO: Representative Jim McIntire, Chair
Senator Joseph Zarelli
Senator Mark Doumit
Representative Ed Orcutt
Victor Moore, OFM, Director
Cindi Holmstrom, DOR, Director

FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: September 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$941.7 million in the August 11 – September 10, 2006 period. Tax payments were \$1.1 million less than the estimate for the month. The small negative variance this month is in contrast to the \$133.6 million positive variance produced in the previous two months. This month's shortfall was primarily due to weaker than expected Revenue Act (retail sales business and occupation, use, and public utility) tax payments and "other" (mostly brokered natural gas and leasehold excise taxes). The weaker than expected Revenue Act and "other" receipts were nearly offset, however, by higher than expected real estate excise tax payments. Despite this month's shortfall, the cumulative variance since the June forecast remains a very large \$132.4 million.

Recent economic news continues to indicate a slowing but still healthy economy. Nationally 128,000 new jobs were added in August, about the same as in July (121,000) but lower than the 142,000 average for the first seven months of the year. The August U.S. unemployment rate dropped to 4.7 percent from 4.8 percent in July. At the state level, the unemployment rate in Washington increased to 5.3 percent in July, up from 5.1 percent in June and 4.6 percent in January. Washington's unemployment rate, however, remains below the July 2005 rate of 5.4 percent. Other indicators at the national level point to slower growth ahead. The Conference Board reported that its Index of Consumer Confidence, which increased in both June and July, declined sharply in August to its lowest level since November 2005. It is now 5.6 percent below the year-ago level. The Conference Board also reported that the U.S. Index of Leading Indicators fell 0.1 percent in July. While this index has decline 0.7 percent since January, it remains 0.9 percent above its year-ago level.

Although Revenue Act collections this month (tax payments this period primarily reflect July 2006 activity of monthly taxpayers) were a little weaker than expected, some of the weakness was due to higher than normal refunds. Revenue growth remains solid despite some deceleration. Collections this month were 6.3 percent above the year-ago level (adjusting for special factors). Although this is less than the previous two months (10.0 percent in June and 15.9 percent in May), it still remains stronger than retail sales growth nationally. Collections for the last three months combined increased a very strong 10.6 percent, similar to the 10.8 percent gain in the second quarter and only a little weaker than the 12.0 percent increase in the first quarter of 2006.

Preliminary information on tax payments by industry for the current period shows continued strong growth in most economic sectors. Tax payments by firms in the retail trade and food services sector increased 5.1 percent. Last month retailers reported a 7.8 percent increase. The slower growth was due to weak car sales. Tax

payments from the auto sector, the largest retail trade category, were 6.5 percent below the year-ago level. This is the second consecutive negative month for autos. Excluding autos, the retail trade sector had an increase of 10 percent. Four of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were non store retailers (+17.6 percent), general merchandise stores (+15.5 percent), gas stations and convenience stores (+14.2 percent) and miscellaneous retailers (+10.9 percent). Payments by firms in non-retail trade and food services sectors were up 11.6 percent for the month. Last month tax payments from the non-retail trade sector increased 11.1 percent. Construction remained very strong, with tax payments 19.5 percent higher than a year-ago. Last month this sector reported a 20.4 percent increase. There were some weak non-retail trade sectors including the real estate, rental and leasing sector (+2.7 percent), professional, scientific and technical services sector (+2.5 percent) and the finance and insurance sector (-2.4 percent.) The strength of real estate activity on overall revenue growth remains evident this month. Tax payments of firms in construction and housing related sectors increased 13.9 percent nearly double the still strong 6.9 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$16.1 million above the estimate for the month. Real estate excise tax payments were again stronger than expected (+\$18.7 million) and accounted for more than the total for the category. The GFS share of liquor taxes was also higher than the estimate for the month and the General Fund received \$825,000 in unexpected estate tax payments. Most other major GFS taxes were below the estimate this month including cigarette (-\$252,000), property tax (-\$684,000) and "other" (-\$4.8 million). The shortfall in the "other" category was primarily due to weaker than expected leasehold excise and brokered natural gas payments. For the three months since the June forecast, Non Revenue Act receipts are \$46.7 million higher than expected with real estate excise accounting for all but \$1.6 million.

Nationally real estate activity is slowing. Both U.S. existing and new home sales fell in August and price appreciation appears to be decelerating. Washington's taxable real estate excise activity is also slowing but not as fast as assumed in the June forecast. Real estate payments this month reflect closings reported by the state's thirty-nine counties for the July 28th through August 29th, 2006 period. Activity was 0.3 percent lower than August 2005. Last month activity (July) was 3.9 percent (revised) higher than a year ago. While growth the last couple of months is considerably less the 12.8 percent average growth for the first six months of the year (January-June 2006), it was still higher than assumed. Rising real estate prices continue to fuel growth in activity. A breakdown of the number of transactions and average value per transaction is not yet available for August but in July, the number of transactions were 15.9 percent lower than a year-ago (the eighth consecutive monthly decline), while the average value per transaction increased 23.5 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$79,000 below the estimate for the month but cumulatively are \$208,000 higher than expected in the three months since the June forecast.

The attached Table 1 provides a comparison of collections with the June 2006 forecast for the August 11, 2006 – September 10, 2006 collection period and cumulatively since the June forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

CMS: cg
Attachments

TABLE 1
Revenue Collection Report
September 10, 2006 Collections Compared to the June 2006 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
August 11 - September 10, 2006				
Department of Revenue-Total	\$941,693	\$940,648	(\$1,044)	-0.1%
Revenue Act** (1)	858,495	841,306	(17,189)	-2.0%
Non-Revenue Act(2)	83,198	99,343	16,145	19.4%
Liquor Sales/Liter	9,842	12,403	2,561	26.0%
Cigarette	4,669	4,417	(252)	-5.4%
Property (State School Levy)	(17,684)	(18,368)	(684)	3.9%
Estate	0	825	825	NC
Real Estate Excise	76,018	94,677	18,659	24.5%
Timber (state share)	2,434	2,297	(137)	-5.6%
Other	7,920	3,092	(4,828)	-61.0%
Department of Licensing (2)	1,109	1,030	(79)	-7.1%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$942,802	\$941,678	(\$1,124)	-0.1%
Cumulative Variance Since the June 2006 Forecast (June 11, 2006 - September 10, 2006)				
Department of Revenue-Total	\$3,308,688	3,440,838	132,149	4.0%
Revenue Act** (3)	2,635,034	2,720,855	85,821	3.3%
Non-Revenue Act(4)	673,655	719,983	46,328	6.9%
Liquor Sales/Liter	32,273	37,098	4,824	14.9%
Cigarette	14,205	14,801	596	4.2%
Property (State School Levy)	269,898	269,886	(11)	-0.0%
Estate	48	1,245	1,197	NA
Real Estate Excise	301,924	346,639	44,716	14.8%
Timber (state share)	2,434	2,297	(136.8)	-5.6%
Other	52,873	48,017	(4,857)	-9.2%
Department of Licensing (4)	9,967	10,175	208	2.1%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$3,318,656	\$3,451,013	\$132,357	4.0%

1 Collections August 11 - September 10, 2006. Collections primarily reflect July 2006 activity of monthly taxpayers.

2 August 2006 collections.

3 Cumulative collections, estimates and variance since the June 2006 forecast; (June 11 - September 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the June 2006 forecast; (June, July, and August 2006) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the June 2006 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
August 10, 2006 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
July 11 - August 10, 2006				
Department of Revenue-Total	\$1,214,747	\$1,214,747	\$0	0.0%
Revenue Act (1)	1,031,657	1,031,657	0	0.0%
Non-Revenue Act(2)	183,090	183,090	0	0.0%
Liquor Sales/Liter	12,659	12,659	(0)	-0.0%
Cigarette	5,129	5,129	(0)	-0.0%
Property (State School Levy)-net	(14,043)	(14,043)	0	-0.0%
Estate	366	366	(0)	-0.1%
Real Estate Excise	161,720	161,720	0	0.0%
Timber (state share)	0	0	0	NA
Other	17,260	17,260	(0)	-0.0%
Department of Licensing (2)	2,515	2,393	(122)	-4.9%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,217,262	1,217,140	(\$122)	-0.0%

Cumulative Receipts: June 11 - August 10, 2006 & Revisions to History

Department of Revenue-Total	\$2,500,190	\$2,500,190	(\$0)	-0.0%
Revenue Act (3)	1,879,550	1,879,550	(0)	-0.0%
Non-Revenue Act(4)	620,640	620,640	0	0.0%
Liquor Sales/Liter	24,695	24,695	(0)	-0.0%
Cigarette	10,384	10,384	0	0.0%
Property (State School Levy)-net after transfer	288,255	288,255	(0)	-0.0%
Estate	420	420	(0)	-0.0%
Real Estate Excise	251,962	251,962	0	0.0%
Timber (state share)	0	(0)	(0)	NA
Other	44,925	44,925	(0)	-0.0%
Department of Licensing (4)	9,268	9,191	(77)	-0.8%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,509,458	\$2,509,381	(\$77)	-0.0%

Preliminary. Reported in the August 10, 2006 collection report.

1 Collections July 11 - August 10, 2006. Collections primarily reflect June 2006 business activity of monthly taxpayers.

2 July 1-31, 2006 collections.

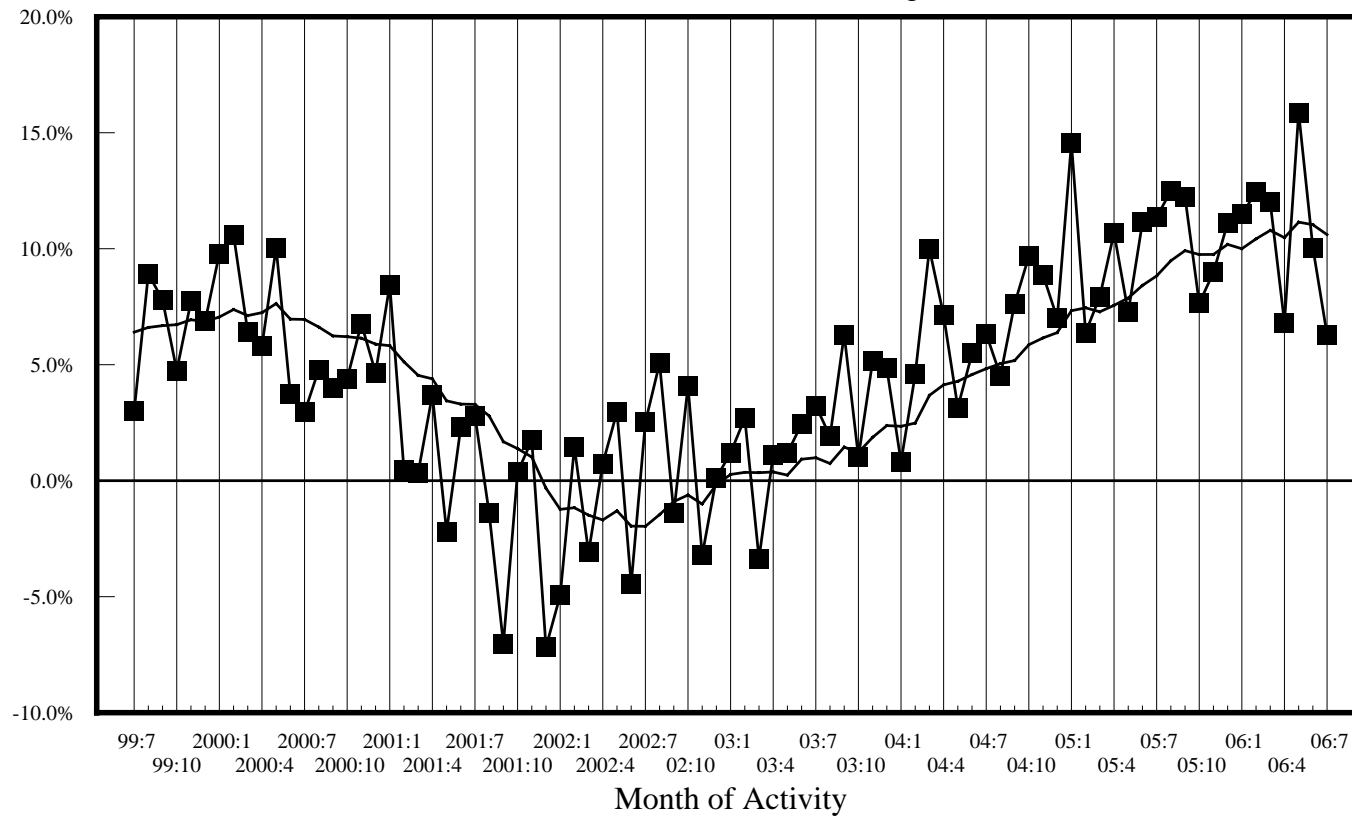
3 Cumulative receipts since the June 2006 forecast: June 11-August 10,2006 & revisions to history.

4 Cumulative receipts since the June 2006 forecast (June and July 2006) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections*

Year-over-Year Percent Change



■ %CH from year-ago month

— Ave. Growth (twelve month moving average)

*adjusted for new legislation and special factors